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Editorial Comment

AUTOMATION AND THE EXECUTIVE

The art and science of business management will be altered by automation. Whether or not this is a valid conclusion, it certainly bears examination.

Automation has been defined as . . . something significantly more automatic than previously existed. It is therefore a relative matter. Automation, or the automatic process of whatever kind or purpose, has not been suddenly inserted into our economic existence. It has been here to a degree from the day of the first machine that ran, even momentarily, without an attendant. The evolution of automatic processes, until just recently, has been gradual and at times halting. Now the pace has accelerated. We hear of many complete applications, such as the famous and highly successful engine plant of the Ford Motor Company. It might be well to observe at this point that some of these efforts have not been successful, some have been abandoned and many others did not conform to expectations.

Automation in an overall sense is not a complete success or an unmitigated industrial cure-all.

The characteristics of such processes are worth noting since herein lie not only their advantages and disappointments but the key to their management.

The benefits, obvious and claimed, are lower production costs through less manual handling, greater production per machine through absence of loading and unloading delays, higher quality warehandling, increased safety and reduction of manpower fatigue. It should be clearly stated these are the possible, the potential, gains.

The other side of the picture shows higher maintenance and engineering costs, and immense capital outlays for special equipment.

There are several economic principles involved in such plants which are well known to the thoughtful accountant and industrial executive. Such tremendous capital outlays and expensive stand-by maintenance and engineering introduces abnormally heavy fixed expense. Each hour has an extremely high price on it and without continuous production, idle capacity costs could be ruinous. Idle plant or downtime can barely be tolerated. Maintenance costs, presently, in many cases a relatively minor part of cost, now balloon into a major element. Control of them will require measurement. Systems must be devised to identify the source of excess cost so that corrective action can be applied. The mechanics of maintenance standards must be as carefully studied and applied as were manpower production stand-

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ards in the decades just past.

It would seem then, that a comparative rigidity and a form of volume limitation exist with the automation concept. Economically, small runs cannot be permitted. This has some serious implication for small to medium sized markets. Some such conclusions are already self-evident in offices which have installed large computer and electronic record systems. In many cases they have reduced existing labour costs, only to raise up new and greater machine costs.

Many installations have been wrongly applied and the net result, in many cases, has been more and more reports about less and less meaningful matters that tired executives have no time to read.

All of this, fortunately, has been a phase and is passing. The massive-type machines are doing the jobs for which they were intended, namely, producing large doses of repetitive information of a standardized nature. The machine companies are beginning to design medium and semi-automatic equipment for smaller work loads. Finally, office management is discovering, or rediscovering, that the error-producing, slow, unpredictable, temperamental office worker is reasonably useful, productive, imaginative and resourceful. Unlike machines, he is able to exercise judgment, at least occasionally.

The fundamental lessons learned in dealing with automation apply in both office and shop. Not so much is at stake in record automation, so mistakes can be absorbed without too serious results. The entire production capacity of a large industry is a different matter.

First of all, thoughful judgment will be needed in deciding what products or processes lend themselves to automation. This, in turn, will require executive management to develop and obtain more sophisticated techniques of planning and forecasting.

Decisions on marketing and production will have much more serious implications than ever before. They will be so because it will often be economically unfeasible to stop or alter the automated process once begun.

It would seem that executives must be right more often than is now the case. Co-ordinated effort on the part of marketing, product design and production will be more necessary than ever. The sales function will not find it as easy to switch products and designs. Consideration of the economic lot run and volume profit concepts will be vital in an automated plant.

Market research will become a major element for management consideration. The present casual and naive methods in this field will be found inadequate.

The entire field of distribution will need to be overhauled and in the future more adroit management will be mandatory.

All of these newer problems and intensification of certain older ones mean a revamping, realignment and change in emphasis of executive skills.

Automation will bring grave decisions and new responsibilities to sales, production and financial management! Are we prepared?

People who take pains never to do any more than they get paid for, never get paid for any more than they do.

—Elbert Hubbard


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ESTABLISHING BREAK-EVEN POINTS FOR SALES TERRITORIES*

By G. K. Hutchings,
Vice-President, Finance,
Smith Manufacturing Co. Ltd.,
Weston, Ontario.

Where break-even theory has been applied, it has usually been applied to the whole operation of an enterprise and seldom to one particular phase. This author believes the break-even analysis technique can be successfully used to produce better profit results from each sales territory and outlines how in the following article.

"Establishing Break-even Points for Sales Territories", as a subject, appears to be largely academic and highly theoretical. But let's re-christen it to "Putting the Profit Motive into Sales Effort" and then ask the question:

"Is there any part of the concept of break-even theory which can be applied to advantage to the operation of sales territories?" And if so, the application must be more than just an academic exercise. It must help us to find the answers to one or more of many problems some of which are:

1. To assist in the control of distribution costs in the company as a whole by localizing abnormally good, or abnormally poor, sales territories.
2. To minimize the sales costs in any territory, consistent with maintaining and expanding sales volume at maximum profits.
3. To assist in determining the effects of high-profit, low-volume lines versus low-profit, high-volume lines from territory to territory.
4. To assist in determining the advisability of incurring additional fixed costs or additional variable costs in any territory in order to exploit it more effectively for profit.
5. To assist in measuring the effectiveness of one territory as opposed to another.
6. To assist in the formulation of various policies including not only sales policies, but also general management policies, financial policies, and production policies.
7. *To get more facts* with which to control the operations of the enterprise more effectively.

* An address to the Grand River Chapter of the Society of Industrial and Cost Accountants given on February 19, 1958

Mr. Hutchings graduated in 1936 from the University of Toronto with a B.Com. degree and joined the staff of Henry Barber, Mapp and Mapp, Chartered Accountants, obtaining his C.A. in 1941. He joined the staff of Smith Manufacturing Company, Limited in 1943 as Office Manager, later becoming Secretary-Treasurer and then Vice-President, Finance. He has been an active member of the Toronto Chapter of S.I.C.A. and its Chairman for the 1957-58 season.

This, then, is probably only a partial list of problems. If we, as financial officers, could assist in their solution, we would, I believe, contribute much to the success of our companies. Many of us have gained our experience as financial administrators during a period when the economic development of our country, *and of our companies,* was almost automatic. During the war years it was a case in most companies of rationing our output. In the mid-forties it was a case of "getting back to normal",—re-habilitating production facilities which during the war years had to be kept running in spite of inadequate fixed asset replacements and, in some non-essential industries, even inadequate maintenance. So, we geared up to meet the increasing demands of the buying public. We built new plants. We added productive facilities. And what is more, we incurred additional *fixed* charges. True, we also incurred additional *variable* costs. We controlled on the upswing. How about the downswing? Unless we take a good look at the composition of our costs, and take specific action to control them we will in all probability find that those which we incurred as "variable" now have converted themselves into "fixed". Perhaps not entirely, and perhaps not in all instances, but my point is this,—that the so called "variable" costs do not automatically shrink on the downswing.

BREAK-EVEN THEORY AND SALES ANALYSIS

Let's look at this then in relation to break-even points and sales territories and see if we can find out whether some kind of a break-even analysis will help us to produce the best possible profit from each territory even when the going gets rough.

The concept of break-even points, break-even charts, and break-even theory is not one, unfortunately, which is universally accepted even by accountants, let alone by general managements and much less by sales managements. You may not subscribe to the theory, or you may regard it purely *as* a theory. But, whether you subscribe or not, I believe you will agree that each dollar of sales revenue in effect represents the recovery of certain costs,—the cost of materials, labour, factory costs such as process fuel and maintenance, other factory costs such as depreciation and property taxes, selling costs, administrative costs and either, if we're lucky, or have properly planned for it,—a profit. I believe everyone would admit the fact that some of these costs are incurred in direct proportion to production, such as material, process fuel, etc. And that other costs such as depreciation and property taxes are incurred on a time basis whether production is close to capacity or is at a very much reduced rate. Sales provide the revenue by which all costs are recovered. Break-even theory merely puts down on paper the fact that sales revenue recovers not only the variable costs, but also the fixed costs. I would like to define the break-even point as the sales volume at which the revenue is exactly equal to the sum of the variable costs and all fixed costs incurred, without providing any profit or any loss.

Whether we subscribe to the theory or not, or whether we prepare break-even charts or not, there is a break-even point for every enterprise based upon given sets of conditions. Most of the conditions reflect the policies of management. Some of the conditions reflect costs imposed by governments or governmental agencies;—such as Workman's Compensation assessment, Municipal taxes, etc. Some of the conditions reflect the activities of competition,—such as the necessity of reducing your own selling prices because your competitor has reduced his.

Break-even theory has been applied usually to the complete operations of an enterprise. Seldom is the break-even analysis technique applied to a particular phase of company operations. However, with the responsibility placed on the sales department of providing adequate revenue to cover all costs and to leave something over as profit, perhaps there is good justification for applying the break-even analysis technique to the actual field operations which produce the revenue. Today, perhaps more than ever before, there is a need for significant facts in order to operate an enterprise successfully. If the break-even technique will contribute significant information then it may prove well worth-while.

Suppose we take two typical sales territories (see Exhibits A and B), and let's assume that each produced the same amount of sales revenue in the past year. Then let's analyze the sales and the costs of getting those sales and see what might be done to improve the operations of each. (Depending upon how good your forecasting is, you can apply the same kind of analysis to the *expected* performance of a sales territory.)

Perhaps one of the most significant facts evident from the break-even charts is the influence of the product mix on the slope of the total cost line. In the case of Territory No. 1 the line of total costs rises at a slightly steeper angle than in Territory No. 2. Therefore it will intersect the line of total sales, thus setting the break-even point, at a greater sales volume than in Territory No. 2. Management should therefore encourage the sales representative in Territory No. 1 to improve the mix of products which he sells.

Another significant fact is the influence of the greater base of fixed charges in Territory No. 1. This of course does not of itself affect the slope of the total cost line but it does determine the point from which the total cost line starts to rise. In this case, management might point out to the sales representative the possibility, and the effect on the break-even point, of reducing the total fixed charges.

In setting company policies, the more knowledge we have of the composition of each territory, the sounder our decisions can be. By "composition of each territory", I don't mean merely what types of customers are located in it, or what is the potential volume of each. This kind of information is of course necessary. However, of equal importance is the knowledge of the effect of the product mix, knowledge of the specific costs attributable to that territory, and the probability through intelligent study of facts, including break-even charts, of being able to produce better profit results from each sales territory.

Sales are the life-blood of any manufacturing business. Without adequate sales revenues we soon find that fixed charges cannot continue to be met, and the availability of funds to meet even variable costs is sometimes in jeopardy. In many companies, total sales revenue consists of the sum of many parts,—the parts being the efforts of sales representatives each working in their own specific territories.

PROMOTING MORE PROFITABLE SALES OPERATIONS

What then can we as financial officers do, or propose—(1) to see that a healthy product mix is available for sale and is sold,—(2) to see that costs of operating specific sales territories are properly determined and available to those who can best use them, and—(3) that there is a concerted drive to bring territorial sales costs into line to produce more profitable operations for each territory and thereby for the

company as a whole.

Since most of us do not have the direct responsibility for sales there is probably little direct action we can take without over-stepping our authority. There is however much that we can propose, or provide by way of information, to assist those who should take the necessary steps.

Many salesmen, and even sales managers, work on the philosophy that the customer dictates the product mix and that manufacturers and salesmen can do little to bring about a change in customer demand. At this point, I would like to suggest to those of you who have a problem of promoting a change of product mix to discuss it with your advertising agency. Most advertising agencies claim that programs can be devised which will promote one range of products, and if necessary, suppress another within your own company.

We, as accountants, can therefore provide information to show the profitability of any given territory based on the present product mix, and similar information to show what that profitability could be if the product mix were altered.

We can also provide information to show the composition of distribution costs in any given territory pointing out the extent of fixed charges and variable costs incurred, and the effect which a change in these would have on the break-even point and in the profitability of each territory under changed volume conditions.

Last but probably not least, we can assist in devising a compensation plan for salesmen which will encourage them to promote the sale of those products which management now knows should be promoted, and which therefore will assist in accomplishing a desirable product mix.

Tied in with same compensation plan can be certain features which will encourage salesmen in the territories to hold their fixed charges within reasonable limits related to sales volume.

Such a plan could probably be conceived and operated with no administrative cost beyond that now being incurred. What would be required is a concerted sales approach by the chief financial officer to the sales manager or general manager to point out to him the increased profits which could result from a well-designed salesmen's compensation plan. Compensation could be either in the form of all salary, or all commission, or a combination of the two, and in any case, with a bonus feature as a part of it.

To illustrate, let us assume that a company is presently paying its salesmen a salary and a commission. The chances are that the commission is either at the same rate for any product which is sold, or at the same rate for any product within a given product group. Now if in product group No. 1, management desires to actively promote the sale of Product A, and to suppress the sale of Product B, or in other words to convince its customers to transfer their buying preference from B to A, management could pay salesmen a higher rate of commission for selling Product A and perhaps no commission at all for selling Product B. This program could run for an indefinite period of time or until the required switch in volume is achieved. In any event it would be desirable to hasten the switch by means of advertising.

Salesmen, perhaps more than any other class of employees, seem to prefer that their remuneration be directly related to their own specific efforts. Perhaps by nature they are more confident of their own individual abilities,—to influence purchasing

agents,—to get the order,—to sell the goods. Perhaps they visualize themselves as operating their own individual businesses within the framework of the company which employs them. Whatever their reasons for being salesmen are, they seem to subscribe more to the theory of incentive compensation than perhaps any other group. When business conditions are good, their earnings are high. When conditions are poor, they tend to accept the fact that they can improve their own income through their own efforts. This often causes them to propose more deals, more discounts, more customer entertaining, all of which can shrink profit margins for the company. And what about the territorial break-even point? It keeps getting higher and higher.

Because salesmen are so conscious of their income being related to their individual sales results, does it not seem logical to put some strings on this relationship to improve not only the salesman's position but that of the company as well? More volume will usually earn more income for the salesman, but perhaps at an abnormally high cost to the company.

THE BREAK-EVEN SALES COMPENSATION PLAN

"Establishing Break-even Points for Sales Territories" is an unorthodox subject. What I am going to suggest by way of compensating salesmen is not yet in effect in our company. I believe it has a lot of merit in it, and it's simply a method of compensating salesmen based on their efficiency of operating their own territories for profit.

1. Reasonable sales quotas would be set for each salesman in total dollars broken down by months for the coming year. To be thoroughly acceptable to the salesman and the company this should be done by collaboration of the salesman and the sales manager, or in the case of larger companies by the salesman and his divisional sales manager and reviewed by the sales manager.
2. Commission rates should be set for each product or each product group varying from low rates on those products which are less profitable, to high on those which are highly profitable or which the company has committed itself to promote.
3. Based on each quota, a basic income (before bonus) should be agreed upon by the company and the salesman. This income could be drawn monthly by the salesman as salary if he wishes, but if drawn as salary, then it would be as a fixed charge against his territory. Or he might choose to draw the basic income entirely against commission earnings, and the commission earnings would be a variable cost to his territory. Or he might choose to draw the basic income as part fixed and part variable.
4. Establish a formula for determining the bonus payable to each salesman whose total sales exceed his own break-even point. The expectation is, of course, that the majority of salesmen will exceed their own break-even points, because if they haven't, the total company operations have not been profitable. This should make such a plan even more attractive to salesmen because they know that the probability

of earning a bonus lies largely within their own control. Such a plan should also be attractive to the company as well, since it is committing itself only to paying the basic income of each salesman. The bonus is payable only out of the profitable operations of each sales territory.

5. At the end of each fiscal year, each salesman's performance should be judged in relation to the break-even point which his efforts have produced. This would take into account the product mix which he sold, the variable and fixed costs related to that mix, and the variable and fixed costs which he incurred in operating his own territory.

In establishing the bonus formula, the bonus should not be a percentage of the commissions or salary earned as basic income. To go back for a moment to Territory No. 1 and No. 2. If both salesmen for example had been on the same commission rates, the salesman on Territory No. 1 would have already earned almost 50 per cent more by selling his break-even volume ($137,033) than the salesman on Territory No. 2 would have earned by selling his break-even volume ($96,539). To base the bonus as a percentage of earnings to date would give too much recognition merely to volume and not enough to the cost of getting that volume.

Let's suppose that each salesman sold $150,000 worth of goods. Each salesman should therefore receive a percentage of the profit attributable to selling that volume *in his territory*. In the case of Territory No. 1 this would be X per cent of approximately $7,000, and in the case of Territory No. 2, X per cent of approximately $30,000.

Two other factors should be considered in setting the bonus formula:

1. The relationship of the break-even point to the sales quota in each territory.
2. Bonus recognition to divisional sales managers based on the results of the salesmen they direct.

In order to achieve company-wide budgeted results it is necessary that sales quotas be met. It would probably be desirable therefore to set two bonus rates in the formula, — a moderate percentage rate to apply in each territory to sales volume which exceeds the break-even volume but does not exceed the quota, and a more generous percentage rate to apply in each territory which has exceeded its sales quota.

The other factor to be considered is some form of bonus recognition to divisional sales managers. You cannot continue to get the whole-hearted support of a sales department if you do not recognize those managers whose responsibility it is to see that the salesmen under them perform.

The only thing left to do now seems to be to pay the bonuses. And when you do, capitalize on it for the good of the company's future operations. Encourage the good salesman to do even better next year and show the poor salesman how he can improve, by reference to his break-even chart for that year.

FOR FURTHER READING

PROFIT POLYGRAPH FOR PRODUCT MIX EVALUATION, by P. A. May, N.A.C.A. Bulletin, Nov. 1955, Sect. 1.

WHY NOT USE THE BREAK-EVEN CHART MORE?, by R. W. Andrews, N.A.C.A. Bulletin, Feb. 1957, Sect. 1.

ESTABLISHING BREAK-EVEN POINTS FOR SALES TERRITORIES

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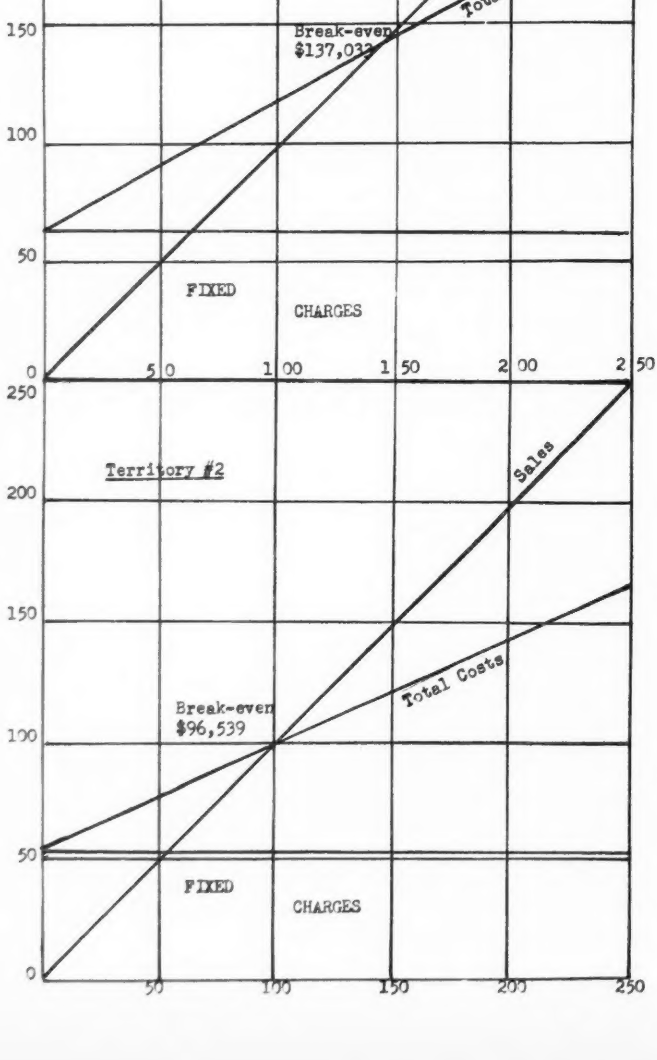

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EXHIBIT A

Establishing Break-Even Points for Sales Territories

February 19, 1958

SUMMARY	REFERENCE	TERRITORY No. 1		TERRITORY No. 2	
Sales revenue	I		$200,000		$200,000
Variable costs					
Cost of sales	II	$100,300		$84,200	
Selling expense	III	6,000	106,300	6,000	90,200
			93,700		109,800
Fixed costs					
Factory	II	32,200		29,800	
Selling	III	18,000		9,200	
Administrative	IV	14,000	64,200	14,000	53,000
Net profit per territory			$ 29,500		$ 56,800

DETAIL — TERRITORY No. 1 / TERRITORY No. 2

I SALES REVENUE

Product	*Selling Price*	*Units* (Territory No. 1)	Territory No. 1	*Units* (Territory No. 2)	Territory No. 2
A	$ .50	100,000	$ 50,000	10,000	$ 5,000
B	1.00	10,000	10,000	20,000	20,000
C	1.50	60,000	90,000	30,000	45,000
D	2.00	25,000	50,000	65,000	130,000
			$200,000		$200,000

II FACTORY COSTS

Product	*Variable*	*Fixed*	*Variable* (Territory No. 1)	*Fixed* (Territory No. 1)	*Variable* (Territory No. 2)	*Fixed* (Territory No. 2)
A	$ .30	$ .10	$ 30,000	$ 10,000	$ 3,000	$ 1,000
B	.55	.20	5,500	2,000	11,000	4,000
C	.78	.22	46,800	13,200	23,400	6,600
D	.72	.28	18,000	7,000	46,800	18,200
			$100,300	$ 32,200	$84,200	$ 29,800

III SELLING EXPENSES

	Territory No. 1		Territory No. 2	
Office rent		$ 2,400		$ 600
Wages		3,000		—
Telephone		200		1,000
Travelling		5,000		1,000
Salesman's salary		5,000		5,000
Commission	$ 6,000		$ 6,000	
Automobile depreciation		900		600
Automobile expense		1,500		1,000
	$ 6,000	$ 18,000	$ 6,000	$ 9,200

IV ADMINISTRATIVE EXPENSES

	Territory No. 1	Territory No. 2
Allocation of head office costs	$ 14,000	$ 14,000

EXHIBIT "B"

TOPICAL comments

by N. R. Barfoot

LOOKING AHEAD

Weather control is more of a distinct possibility than ever before. If, as a general proposition, precipitation, either rain or snow, could be brought about or inhibited at will, this would constitute all the weather control mankind needs, i.e. to prevent droughts and violent storms. More and more success is apparent in seeding clouds to cause rain or snow either through silver iodide crystals or plain water.

Trucks on ships is the latest transportation innovation. Four ocean freighters of a prominent steamship company have been converted to carry trailers. These are loaded by two gantry cranes at the rate of 40 tons per crane each five minutes compared to 2½ tons by conventional methods. Capacity — 226 trailers.

Flat TV screens are being developed. The new screens are less than one quarter inch thick and three times as bright as conventional TV tubes.

Chemical killing of trees will be used a great deal in the future. Use of chemicals stems from the fact that pulp mills need dry, clean wood. The method starts with the removal of a strip of bark at the base of the tree and painting of sodium arsenite solution on the bared portion. The tree dies as the sap spreads the poison. One year later the tree is cut and shipped. Fresh cut wood weighs 5000 lbs. to the cord but chemically killed weighs 3800 lbs. Less weight is an important advantage as it cuts transportation costs. When chemically killed trees are cut, the wood can be sent to the mill immediately instead of waiting for a year to dry partially.

Talking books are possible through a new Japanese invention. The back of the paper is treated like magnetic type. When a reproducing head is passed over the printed words, sound is produced.

ON THE PERSONAL SIDE

Car rentals on a thrift plan are being introduced. Small imported cars are rented at $5.00 per day and five cents per mile. This compares to around $6.00 per day and 9-10 cents per mile. It doesn't include gas or credit; no weekly rates are given and none but good risks are accepted.

Fireproof house may be possible by the use of a new U.K. preservative in the wood parts. Fire, fungus and insects are repelled by it. Suitable for soft hardwoods such as beech and birch. Estimated cost to treat a house with 1000 sq. ft. would be $180.

Lighted ball point pen is now available for those who awake in the night and wish to record the more interesting facts and fantasies arising out of their sub-conscious. The light is built in.

A water-saving device has been developed. A washroom mixing faucet with a control knob permits water at temperatures from very hot to cold to flow. A restrictor in the head also allows a maximum of four to five pints per minute, said to be the ideal amount for hand washing.

Movie goers are increasing. For the first time, more people went to the movies in the first two months of 1958 than in corresponding periods since 1952. Most of the patrons are in the under-30 group. Admissions, generally, fell from 248 million in 1952 to 162 million last year and per capita expenditure for theatre tickets fell from $8.30 to $6.00. Reason for the decline is TV. Reason for the mild upsurge, better pictures.

A process of colouring pictures from black and white slides for projection purposes has been discovered.

Badly burned people are being exposed to negatively ionized air. It acts as a pain killer and obviates the need for narcotics.

OF GENERAL INTEREST

Japanese Trade

There are some interesting facts and figures on Japanese business conditions.

- Most Westerners view Japan with pre-war eyes. The situation has changed considerably.
- In the cotton textile trade, comprising 25% of the entire labour force, 99% of all workers are unionized.
- There are extensive fringe benefits, equalling 18% of workers' earnings. These include paid vacations and statutory holidays, maternity leave with pay for women, bonuses averaging two months' wages, retirement at age 55, medical, hospital, surgical facilities, as well as provision of sports and social centres.
- Workers are kept on the payroll even when business is slack.
- In the main, Japan is restricted for foreign earnings to those lines in which she excels in manufacturing skill. Cameras, optical goods, portable radios, electronic components, toys and chinaware. Silks, velveteens and ginghams are the principal textile lines.
- Japan's export trade amounted to nearly three billion in 1957, chief of which was textile machinery and ships.
- Cultured pearls worth $17,000,000 were exported during 1957. In quantity, 50,000. Japan is the only producer.
- 181,443 autos were produced in Japan last year, 6,592 of which were exported.
- Japan is the world's largest producer of fish liver oils, the basic ingredient of vitamin products.
- The world's largest tunnel, 22½ miles undersea between the two main islands of Honshu and Hokkaido will be started soon.
- Two other tunnels, 13½ and eight miles long are planned as well as a super highway worth $200 million.
- Japan, always short of conventional fuels, is moving closer to nuclear power. Agreements for such development are completed with Britain and United States. Atomic powered ships are in the planning stage.

THE ROLE OF LIFE INSURANCE IN ESTATE PLANNING*

By R. A. Mitchell, C.L.U.,
Kenneth G. Brown & Associates,
Hamilton, Ontario.

Life insurance offers many unique advantages to the business and professional man, from the standpoints of estate creation and estate conservation. In this article a variety of insurance plans are outlined, adapted to the contingencies of the growing or established business and to the needs of the professional man, who should be particularly concerned with retirement savings plans.

Estate planning is not a one man job. It needs the separate talents and abilities of each member of the estate planning team — the accountant, the solicitor, the trust officer, and the life underwriter.

However, it seems to me that life insurance plays a basic role in every estate plan from the standpoints of both estate creation and estate conservation. For example, take the young man with a wife and small family, who is just starting out in business. This is usually when he acquires the first rudiments of an estate. If the insurance man knows his business, he will sell him as much permanent life insurance as he can afford with an inexpensive family income benefit, at least to cover the period when the children are completely dependent, and to guarantee that their mother will be able to look after them financially. The policy could include a clause that will not only waive the premiums in the event of total disability but also pay an income during disability. It could also include a benefit paying double the insurance if killed in an accident. For this total policy it would cost the young married man, aged 30, about $249 per year to guarantee $100 per month for 20 years, if he dies immediately, plus $10,000 at the end of that time. If he is killed in an accident, it pays an added $10,000 immediately. If he becomes totally disabled, it not only waives all premiums during disability, but also pays him an income of $100 per month. So this young man has created for himself and his family an immediate estate worth over $25,000, for less than $5.00 per week.

As this young man goes along, his life underwriter should stay right with him — and grow with him. When the young man buys a house, he probably will have

* Adapted from an address to the Estate Planners' Council of Hamilton on October 9, 1957

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a mortgage. If so, the same man, aged 30, could have a 20 year mortgage for $10,000 cancelled on his death by paying only $53.50 per year for 15 years and have the premiums waived if he becomes totally disabled. This is a reducing term policy, diminishing as the mortgage gets paid off and costing only about one-half of one per cent of his mortgage per year. So the family can continue to live in the house if they wish.

BUSINESS PROTECTION

Then our young man decides to go into business for himself. At first a small operation, he builds it up and it produces more for him than he made as an employee working for somebody else. But, like all business men, he has a tendency to plow back the profits into the business and really he has very little more of an estate for his family than he had as an employee. True, the business has been successful but it is completely dependent upon him for continuation and, in event of his death, would be worth only what the inventory, furniture, etc. would attract in a forced sale. Statistically we learn that stock shrinks about 50% in value, fixtures and furniture about 75%, and accounts receivable, 50 to 75%. So our underwriter appears on the scene again and asks, "How would you like to provide a living market at a pre-death price for a dead man's business interest, which otherwise would have, at best, an unfavourable market at a post death price?" Mr. Sole Proprietor says "Yes." The underwriter shows him he can either set aside a few dollars each week out of business profits in an insurance contract which would cover this loss or, as an alternative, sale of the business could be arranged under an agreement, drawn by his solicitor, with an employee, competitor, or someone else. This purchase price can best be funded through life insurance on the sole proprietor's life, owned by the purchaser. It is the only medium whereby the actual death provides the cash funds at the time they are needed. Of course, the ability to buy life insurance depends upon good health and insurabiliy. A man insurable today could be absolutely uninsurable tomorrow. So let us take no chances and get the maximum insurance in force at the earliest possible moment.

As our client goes along and his business succeeds, he may decide to incorporate. If so, then some market for his shares can be created with the purchase price funded once again with life insurance, so the purchaser has the money to pay a proper price and the estate of our client won't have to depend upon the ability of an outsider to operate the business successfully in order to get the share value. If the business has been unable to declare large dividends because much of the profit beyond salary is tied up in bricks and mortar, accounts receivable, etc., then perhaps our underwriter, after consultation with the accountants, might be able to show that issuing Section 105 shares would be desirable, even if they could not be redeemed immediately. As long as the business-owned insurance on the shareholder's life is sufficient, the company could redeem the shares, at least upon his death. And the cost to the company? At age 30, only 1.4% of the capital each year. It would take over 70 years to pay in the face amount — and what a difference to our shareholder's estate picture!

EMPLOYEE PROTECTION

As our young businessman gathers staff around him, the life underwriter should be ready to help him install group insurance for himself and his employees, as well as a pension plan at the right time — both of which not only help the man's own estate but help tie his employees to the business. If the employee is getting a pretty good salary but has a wandering eye, perhaps he should be tied tighter to the business by giving him a Deferred Compensation Agreement. This would be advantageous to both men. The employee, while having no taxable income now (if the agreement is drawn properly), would be assured of substantial funds for his family if he dies before retirement and extra income after retirement when his tax bracket will probably be lower. For the employer, it is desirable because he can have the agreement funded with money earned while the employee contributes to the earnings of the business, but have any vesting in the benefits contingent upon the employee staying with him until retirement and not entering into competition aferwards. While the pension or endowment used as the funding medium will be bought with dollars out of surplus after tax, the recovery to the business after retirement of the employee will be a tax-free addition to surplus. And just at the right time — when the key employee is no longer contributing to company earnings. While it is true that such a sinking fund is not absolutely essential, it should be highly desirable to both the employer and the employee. For the employee, he will want to make sure that the company has the money to guarantee performance of the agreement with him, independent of future company earnings. From the employer's standpoint, it is not only being paid for while the employee is contributing to the profits, but also can provide for a substantial sum to be paid to the business if the employee dies before retirement. This should help the employer attract a man of comparable ability without hurting the financial picture of the company just when it has lost a key man.

LIFE INSURANCE IN ESTATE CONSERVATION

So much for a few of the uses of life insurance in estate creation. It plays just as important a role in estate conservation. After a person has successfully built a substantial estate, independent of life insurance, he faces the problem of providing liquid assets of dependable value to cover estate liabilities and succession duties which are required in cash soon after his death. If the main estate asset happens to be private company shares with no arrangement to sell them upon death, it is common knowledge that a forced sale seldom attracts a proper price. So, to have liquid assets of dependable value at the very time they are needed, there is no substitute for life insurance. By having sufficient life insurance, other estate assets can be left as they are, producing income or capital appreciation, and only a small amount of interest would be required to pay for the insurance. It's just like going to the bank to borrow $100,000 and the bank telling you all you need pay if you take the loan at age 30 is 1.43%, at age 40, 2.099%; at age 50, 3.241% and at age 60, 5.35% and you never have to repay the capital.

THE PROFESSIONAL MAN

Now let us turn to the professional man. His advantage is that he usually earns

more money on the average, but he is under a handicap since he often cannot incorporate and get the advantage of group insurance and a pension bought with tax-free dollars. But he still faces many of the same hazards as the employee. He may die too soon, live too long, or become disabled. Strangely enough, each of these problems can be overcome with life insurance in one form or another. When he starts out, his income may not be too great and even below that of an employee. He may have to start with some kind of term insurance until he can switch to the permanent type which is less expensive in the long run. Undoubtedly, he will want the income disability provision even more than the employee because he is in a more specialized field and, therefore, more vulnerable because he does not normally move into a different vocation as readily. So this man creates his first estate through life insurance but, unlike the employee who usually forgets his job after his 40-hour week, he is inclined to work long hours. But the very thing that makes him successful in his profession works against him in acquiring added estate through investments, etc. Playing or working the stock market is almost a full time job and the normally successful professional man does not have the time to watch its fluctuations. Therefore, the professional man usually looks for a safer, more dependable avenue of investment and, in particular, for retirement funds.

RETIREMENT SAVINGS PLANS

Certainly the new legislation allowing for tax-free purchases to registered retirement savings plans offers what has been requested for a long time by the self-employed but, up to now, very few have taken advantage of it. Perhaps the reason is four-fold. First, he wonders how much his earnings will be for the year and is waiting to find out before making a deposit. Secondly, perhaps he is wondering into what plan he should embark. Thirdly, perhaps he is loath to set aside any funds that he cannot reach without a potentially heavy tax loss and, finally, perhaps he expects to have outside income, either earned or unearned, after normal retirement date which could make the tax advantages less attractive. The trust companies offer two basic types of plans — one at a fairly fixed interest rate in staple investments like bonds, debentures and mortgages and the other in equities which are supposed to fluctuate with the cost of living and presumably offer the best chance of capital gain. Nevertheless, whatever funds are accumulated in either fund must, under present laws, be used to purchase an annuity from a regular insurer at retirement — at least by age 71. This annuity must be for life but may have a guaranteed period of not more than 15 years or for the after-lifetime of a spouse. The amount of the annuity is usually not ascertainable until the purchase is actually made and at the rates in effect at time of retirement.

As opposed to this, the insurance companies can offer a plan now that will guarantee the rate for the annuity to be provided at retirement date. Besides this, a larger death benefit can be provided through life insurance added to it and the valuable Waiver of Premium or Income Disability provisions can be included. Through this medium, presumably, one can be assured that disability will not interfere with the provision for Retirement Funds and, indeed, income during disability prior to retirement is provided in an inexpensive way. Perhaps the insured

plan offers the best all-round solution to the three-fold problem of dying too soon, living too long, or becoming disabled. However, the trust company plans offer perhaps a potentially larger income, if equities increase in value, but these gains could be offset by losses, increases in life expectancy through advances in medical science and consequent higher costs in annuities at retirement.

Both plans allow the purchaser to deposit uneven amounts into the fund based on the purchaser's income or inclination in the year, but the insurance company plan is geared to a certain minimum premium and any excess is carried in a deposit account intended to cover future premiums as they fall due.

My personal opinion is that both plans have some merit but that there are few persons who want to "lock up" ten percent of their income each year without being able to get it without a tax loss. Certainly I would not want to see all the funds labelled for retirement tossed into equities — at least some of the deposits should be placed in a plan that is guaranteed in spite of business conditions or market fluctuations.

SAVINGS PLANS VERSUS INVESTMENT

How often we run into the prospect who says, "Oh, those savings plans are okay for some people but not for me . . . I can make far more money in the stock markets." Or in some other hi-falutin' investment scheme.

How few people have been successful along these lines is illustrated by this little story.

> "In 1923, a very important meeting was held at the Edgewater Beach Hotel in Chicago. Attending this meeting were eight of the world's most successful businessmen. Those present were:
> The president of the world's largest independent steel company;
> The president of the world's largest utility company;
> The greatest wheat speculator;
> The president of the New York Stock Exchange;
> A member of the president's cabinet;
> The greatest 'bear' on Wall Street;
> The head of the world's greatest monopoly;
> The president of the Bank of International Settlements.
> All these men were multi-millionaires. All these men had found the secret of making money. NONE OF THEM found the secret of successful living . . . NONE OF THEM found the secret of SAFELY AND SUCCESSFULLY accumulating funds for their later years. By 1948, this is what had happened to them. . . .
> The steel company president — Charles Schwab — died a bankrupt after living on borrowed money for five years before his death. He had earned in his lifetime $200,000,000 — he died a bankrupt debtor.
> The utility president — Samuel Insull — died penniless in a foreign land, a fugitive from the law.
> The wheat speculator — Arthur Cutten — died abroad . . . hopelessly broke.
> Recently released from Sing Sing penitentiary was Richard Witney, a

former president of the New York Stock Exchange.

Albert Fall, once a presidential cabinet member, was let out of jail so that he could die in poverty at home.

The greatest 'bear' on Wall Street — Jesse Livermore — killed himself rather than face his creditors.

So did Ivar Krueger — head of the great monopoly.

So did Leon Fraser, once head of the Bank of International Settlements."

Yes, tell me more about these investment schemes — and then I'll tell you about one way you can be sure of having at least enough to buy the groceries and pay the rent when you are old and feeble.

The compromise situation as I see it is a splitting of the retirement deposits into two parts—the first part to be used to buy an annual premium Government Annuity up to the maximum of $1,200 per year and the balance placed in an Insurance Company Annuity including at least the Waiver of Premium disability provision. The other part might be placed with a trust company in either or both of the plans they offer. This solution may not please some but for those who are prepared to lock up a portion of their income to obtain the tax relief currently, this seems like the safest approach. You will note that I have not indicated that these are two equal funds but I do favour at least half in fixed dollar income plans.

SOME ASPECTS OF LIFE INSURANCE

As most of you know, there are three classes of beneficiary in life insurance under the Uniform Life Insurance Act—ordinary beneficiaries, beneficiaries for value and preferred beneficiaries. In the preferred class we have parents, spouse, children, adopted children, grandchildren, adopting parents and, when one of this class is named, a trust is created in favour of that person and the assured cannot surrender, borrow against or change such a contract without the consent of such named preferred beneficiary. All the assured can do is change the beneficiary among the preferred class. However, the important point here is that the creditors of the insured cannot reach the policy proceeds other than to the extent of premiums fraudulently paid. This can be important for an unincorporated business operator who can protect his immediate family at least to this extent. However, there are some rumours that the next amendments to the Uniform Act may remove this benefit. If this happens, there are other ways of accomplishing the same thing.

One brief comment about life insurance declarations in a will. Don't use them! While it is quite possible to draw a perfectly valid declaration in a will it should be remembered that the trusts under the will could go beyond the preferred class of beneficiaries. If the life insurance is so payable, then the declaration could be invalid. Similarly it could be that the will is invalid (such as improper execution) but that the declaration is good. It should also be remembered that, while the will speaks from the instant of death, the declaration in the will speaks from the date it was signed. Policies taken out or changed after the will was signed probably would not be covered by the will declaration.

In the Ontario Succession Duty Act there is an exemption of "any non-commutable annuity, income or periodic payment, affected in any manner other than by will or testamentary instrument and paid for by the deceased during his

lifetime and paid to or enjoyed by the wife or dependent father or mother or any dependent brother, sister or child of the deceased after the death of the deceased, to the extent of $1,200 per annum with respect of any one person and to the extent of $2,400 in the aggregate." Prior to the latest changes in the Dominion Act, this was not of as great benefit since, if the income was not property-taxed in the province, there was no credit allowance from the Dominion. However, the 1957 amendments allow such credit, so perhaps having such an income set-up under an insurance contract might now be highly desirable and advantageous tax-wise. I know of no other estate asset enjoying such exemption.

While on this point, I have seen arrangements made on life insurance policies payable on an income basis where the wife is denied the right to commute, alienate or assign her interest in the payments. And yet such a policy has been assigned to the bank by the insured and his wife. Personally, I would doubt whether such an assignment was of much value if the insured died, since the wife had previously been denied the right to assign. Similarly for policies payable to different beneficiaries (perhaps to the wife as income in one case — to a child in lump sum on another — and to the estate in a lump sum on a third) and assigned to the bank I wonder to what policies the bank would look for payment keeping in mind that somewhat complicated legal point referred to as the Marshalling of Assets.

Some clients like to make gifts to reduce their estates for succession duty purposes, but often do not like to make them to children under 19 as the income from such gifts is still considered that of the donor. However, a minor who is 15 years of age can effect and deal with a Policy of Insurance on his life just as though he were of the full age of 21. If gifts to minors were placed in insurance policies on their lives, no income would be produced and hence there would be no tax to pay. If the donor wants to make sure that the policies are not dissipated, he can effectively prevent this by having the minor appoint the parents as beneficiary so the policy could not be surrendered or borrowed upon without the consent of such preferred beneficiary. A word of caution here. Although the person 15 or over can deal with the policy as well as if he or she were 21, such is not true for a preferred beneficiary. Thus even a married woman named as beneficiary cannot effectively join in any dealings with the contract until she reaches age 21.

SETTLEMENT OPTIONS

Certainly one of the uses of life insurance in estate planning is the Settlement Options contained in most contracts. Briefly, there are five options:

(a) to hold the proceeds on deposit at interest for a certain period.
(b) to pay a given income per period until the proceeds are used up.
(c) to pay an income for a definite period of time.
(d) to pay an income for life based on the age of the beneficiary and either ceasing upon the beneficiary's death or guaranteed for a minimum of five, ten, 15 or 20 years.
(e) to pay an income during the lifetime of two persons and continued in whole or part to the survivor for life.

The use of these options can provide a trust service without charge to the estate or beneficiary and do offer attractive returns on old policies particularly. However,

in newer ones mostly at a $2\frac{1}{2}\%$ minimum rate the return is not too attractive, particularly if the beneficiary is quite young. Most companies do pay an excess interest dividend bringing the effective interest today up to about $3\frac{3}{4}\%$ but this interest is generally paid only during the period certain and not during the remaining lifetime of the beneficiary.

While these options can be used to advantage quite frequently in estate planning, they do not usually offer the flexibility of a will nor the anticipated return currently being realized by corporate trustees. However, it should be remembered that Settlement Options were introduced originally not to put the life insurance company in the trust business but to prevent the dissipation of life insurance proceeds by widows succumbing to the charms of a fast talker. Certainly, however, these Settlement Options can be of value in estate planning, particularly in the smaller estates and at the older beneficiary ages, but should not be used indiscriminately.

So there you have it. Life insurance is indeed a remarkable product and frankly there is not another that can quite take its place.

FOR FURTHER READING

ESTATE PLANNING. A panel discussion. The General Accountant, Jan.-Feb. and March-April 1958.

ESTATE PLANNING, by A. J. Little, The Canadian Chartered Accountant, Oct. 1956.

ESTATE PLANNING AND BUSINESS CONTINUITY, by Irving Rosen, The Canadian Chartered Accountant, Oct. 1956.

The Economic SCENE . .

by W. Allan Beckett

CURRENT TRENDS IN CANADIAN FOREIGN TRADE

At first glance, the latest Canadian foreign trade returns — those to the end of March 1958 — indicate a satisfactory position, and, to a large extent, confirm official pronouncements as to what would be the desirable trade developments from the national viewpoint.

Exports, it is true, have fallen, but only by 2½ per cent from levels in the first quarter of 1957, and when allowance is made for the price factor, export volume is very much the same. In the month of March there was an actual increase over last year and for trend analysis seasonally adjusted data also indicated an upturn. Imports, on the other hand, fell steeply, by 12 per cent in value and perhaps 15 per cent in volume. Virtually the whole decline occurred in purchases from the United States. In consequence the Canadian merchandise import surplus fell from $240 millions at the end of the first quarter a year ago to $101 millions this year, and that with the United States dropped from $368 millions to $209 millions.

These developments, it is argued, are as much as could be expected in the weaker economic situation and substantially reduced world demand for basic commodities than existed a year ago. Indeed this line of reasoning is true so far as it goes but it goes only as far as the aggregate figures of Canadian trade; behind these lies a very different story. Furthermore, the influence of government trade policy has been slight except for a boosting of wheat sales to India and Pakistan as a result of the thinly disguised giveaway program.

On the import side trade movements have been both obvious and simply explicable. Shortly after the current recession began to emerge, an import decline was inevitable and in fact it showed up as early as March 1957. Continuing throughout last year the decline accelerated rapidly in the last quarter and carried over into 1958. The import rate is more closely related to the general level of domestic economic activity than is the export rate. As Canadian production slackened, inventory liquidation intensified and capital investment fell off, the demand for imports weakened.

The largest losses occurred in iron and steel goods and industrial machinery, becoming widespread as long term orders for capital equipment were filled. Since the United States is Canada's largest supplier of these commodities, the geographical decline naturally occurred in purchases in the American market. Imports from the United Kingdom have held up thus far because of various factors, particularly contractual agreements for the supply of aircraft, pipe and other iron and steel goods.

Although these developments have accounted for roughly a three per cent decline in the American share of the Canadian market and a two per cent increase in the British, they stemmed primarily from basic economic forces, rather than from

any diversion policy or overseas trade mission, both of which are of too recent origin to have produced significant results.

The continuing downward movement of the economy in general together with the new Canadian facilities and availabilities for the production of iron and steel goods such as the new pipe mill at Welland, may very soon affect the absolute level of imports from the United Kingdom.

Any increase in the British share of the Canadian market this year will be attributable only to a sharp decline in the level of total imports the brunt of which will be largely absorbed by the United States. It seems likely that the level of British imports, too, will begin to fade, and perhaps appreciably, as the year progresses.

Developments on the export side, on the other hand, have been both complex and in some ways ominous. The total decline, it is true, has been only $26 millions, but this figure is no more than a residual of wide and conflicting swings in the major commodities in the Canadian export pattern. It is here that the true significance of trade movements in the first quarter of 1958 lies.

In only a few basic industrial materials, for example, oilseeds, woodpulp and newsprint, the base metals except nickel, asbestos, abrasives and crude petroleum export values have declined by $100 millions in three months. Furthermore this decline seems likely to be only a beginning. Reductions in nickel and iron ore sales will soon appear, while copper, lead and zinc are in an increasingly precarious situation both in terms of world supply-demand relationships and because of the possible imposition of import barriers in one form or another by the United States.

Despite some rationalization of inventories by fabricators and production cutbacks, the markets for basic commodities in world trade have shown little, if any, improvement in the past few months, and it is still an open question as to whether prices for industrial materials have reached their low point.

The general oversupply of industrial materials that has accompanied reduced levels of economic activity — levels that show as yet few discernible signs of recovery — does not augur well for those exports which are the traditional backbone of Canadian foreign trade.

The commodities sustaining the general export level are uranium ores, beef and veal, wheat grain and aircraft. Of these, uranium ores and aircraft will continue to support exports throughout the year, but for reasons quite unconnected with economic movements in general. That is to say, these are being shipped under long term contractual agreements reached under entirely different circumstances than those existing today.

Overall prospects for beef sales to the United States seem good for 1958 as a whole with some likely fluctuations in the peak marketing season of late Spring and early Summer. However after August year-over-year gains will shrink very rapidly.

Wheat grain sales in the last half of the year will almost certainly need artificial support of some kind to equal the sales level reached in the closing months of 1957.

In summary the weaknesses now apparent in the export commodity pattern will probably grow more serious as 1958 progresses. By the time the Commonwealth Conference is held in September, Canada may well be in need of a definite trade policy.

INCOMING MATERIAL VERIFICATION PROCEDURE

By S. B. MacMillan, Jr.,

Supervisor, General Accounts, San Francisco District Office of the Apparatus Sales Division, General Electric Company.

Many corporations utilize centralized purchasing and receiving functions servicing several distinct manufacturing lines. This type of organizational structure presents many problems in the handling of paperwork. The author has outlined in simplified form a routine covering incoming material providing adequate control with a minimum of paperwork.

In corporations where the purchasing and receiving functions are centralized, special consideration must be given to the establishment of routines for the control of incoming material, if effective internal control, without unnecessary duplication of effort, is to be maintained.

Since the purchasing and receiving functions are separate, independent and apart from the manufacturing operations, and because they service several manufacturing sections, they cannot maintain complete familiarity with materials ordered. Therefore, in order to achieve effective internal control, the Inventory Record Units of the manufacturing sections which originate the purchase requisites and the stockrooms which ultimately receive and place the material into stock must be called upon to perform an important part of the receiving function.

Outlined below is a routine covering the purchasing and receiving of material and the paying of vendor invoices for a manufacturing concern with centralized purchasing and receiving activities. For this example, we are assuming that the several Inventory Record Units maintain perpetual inventory records of material ordered by number of units rather than by dollar amounts. One accounting organization performs the accounting function for all manufacturing sections with account distribution made to the individual manufacturing section at the time the invoice is paid. The basic controlling document in the purchasing and receiving routine is the serially numbered purchase order form prepared in Purchasing. Exhibit A is a flow chart showing the distribution of the purchase order form copies. The purchase order form serves as a combination purchase order and receiving report.

Details of distribution and purpose served by each copy of the purchase order form are as follows:

Mr. MacMillan has been with General Electric Company since 1950, at first in Erie, Pennsylvania, where he took the company's Business Training Course, and later in San Francisco, where he was subsequently transferred. His accounting experience has been mainly in the spheres of general accounting, tax and insurance accounting, and internal auditing. He is a graduate of the University of Denver, holding a B.Sc. degree in business administration with a major in accounting. He is a member of the National Association of Accountants.

Exhibit "A"

Flow Chart of Distribution of Purchase Order Forms

Copy Number	*Vendor*	*Purchasing*	INVENTORY *Records*	*Stockroom*	*Receiving*	*Accounts Payable*
1. "Vendor Order"	X					
2. "Vendor Acknowledgment"	X	X				
3. "Inventory Records File Copy"		X	X			
4. "Purchasing Posting and Filing Copy"		X				
5. "Purchasing Vendor File Copy"		X				
6. "Receiving Report—Accounting Copy"					X	X
7. "Receiving Report—Stockrooms, Inventory Records, File-Purchasing"		X	X	X	X	
8. "Receiving Permanent File Copy"						
9. "Accounts Payable File Copy"					X	X

COPY NUMBER:

1. VENDOR ORDER—Order on vendor to furnish material.
2. VENDOR ACKNOWLEDGMENT—This copy accompanies the vendor order copy. Vendor is instructed to return the acknowledgment copy promptly, acknowledging receipt of and accepting the order and indicating the scheduled shipping date.
3. INVENTORY RECORDS FILE COPY—When vendor returns acknowledgment copy to Purchasing, vendor's scheduled shipping date is inserted on Copy No. 3 which is forwarded to the initiating Inventory Records Unit as their file copy.
4. PURCHASING POSTING AND FILING COPY—This copy is kept in Purchasing's open file by purchase order number until order is complete. As shipments are made and invoices received, information is posted on this copy as a safeguard against duplicate payment of invoices.
5. PURCHASING VENDOR FILE COPY—Additional purchasing file copy for consecutive file by vendor.
6. RECEIVING REPORT-ACCOUNTING COPY—Receiving report copy which is forwarded by Receiving to Accounting with freight invoices attached. Serves as authority to pay invoice.
7. RECEIVING REPORT — STOCKROOMS, INVENTORY RECORDS, FILE-PURCHASING—This copy of the receiving report accompanies the material to the stockroom. The stockroom inspects the material, accounting for the receipt of all material ordered and making sure that it is according to specification and quality ordered. The stockroom then forwards the receiving report to Inventory Records, indicating quantities and types of material placed in stock. Inventory Records checks the receiving report against material ordered and posts receipt of the material to perpetual inventory cards. Inventory Records then notes on Copy No. 7 that all material has been received, and the copy is forwarded to Purchasing for filing in the purchase order file.
8. RECEIVING PERMANENT FILE COPY—Permanent file copy of Receiving.
9. ACCOUNTS PAYABLE FILE COPY—Permanent file copy of payable.

Additional copies of purchase order forms can be included in the packet to fit the needs of the specific organization involved.

Brief descriptions of the functions performed by Purchasing, Receiving, Accounts Payable, Stockrooms and Inventory Records Units follow, outlining the parts they each play in the control of incoming material.

PURCHASING ACTIVITIES

Purchasing's responsibility is to select vendors and to place orders for material requested by the Inventory Record Units. Purchasing's role in the accounting

control function is as follows:

1. *Processing of Vendor Invoices*
   (a) Vendor's invoices are checked against the original order to verify that material is of specification and description ordered. Posting of the vendor invoice to the fourth copy of the purchase order form is handled at this time.
   (b) Price checking of vendor invoice is done by comparing prices charged against quotations, catalogues, published price lists, contracts, or, in certain cases, is based on the judgment of the buyer.
   (c) Vendor terms of payment are inserted on the invoice. Invoices subject to cash discounts are marked with special tags to be processed faster than non-discount invoices.
   (d) Vendor transportation terms and methods of transportation authorized by Purchasing are noted on the invoice.
   (e) To serve as a historical and informational record of material purchases, a memorandum card record can be maintained covering each type or size of material ordered with names of supplying vendors, quantities ordered, prices paid, and ordering Inventory Record Units. Notations are made on this card as to quantity discounts offered and other pricing information. This type of record can be helpful in the price checking of vendor invoices described in (b) above as it indicates prices previously paid. Posting to this card would be done when the invoice is price checked.

   A passage stamp is placed on Copy No. 1 of the vendor invoice on which is indicated the payment and transportation terms referred to above. Original copy of the vendor invoice is forwarded to Accounting for payment, and the second copy is retained in the purchase order file.

2. *Receipt of Material*
   The initial matching of the receiving report with the vendor invoice is done in Accounting. Accounting does not make an item-for-item check that the material included on invoices tallies with the respective receiving reports. The final verification of material included on invoices is the responsibility of Purchasing. The No. 7 copy of the receiving report containing the stockroom's record of material placed into stock is forwarded to Purchasing.

   Purchasing would perform a detailed verification of the receiving report with the vendor invoice to ensure that all items included on vendor invoices were physically received. Purchasing's files are transferred to the closed file when the No. 7 copy of the receiving report has been checked against the invoice. Periodic follow-throughs are made to account for all No. 7 copies.

RECEIVING ACTIVITIES

Receiving would occupy relatively small floor space and have only a few em-

ployees. Material would ordinarily be processed through this area quite rapidly as once it is checked and the receiving report prepared, it is forwarded immediately to the respective stockroom. All incoming material is directed to the central receiving area and receiving's prime function in the internal control procedure is to verify that all material included on freight invoices and vendor packing slips is physically received as to number of cartons or crates and weight. They do not open cartons and crates to verify contents except on a test check basis, since this function is handled by the stockrooms. Vendors are instructed to mark the purchase order number on all packing slips and bills of lading, so that Receiving can pull the applicable receiving report copies from their purchase order files without delay. Receiving reports are then forwarded to Accounting together with freight invoices, and the material and copy of receiving report go to the stockroom. Receiving does not maintain detailed records of material received but does prepare a daily tally sheet indicating purchase order number and carrier name. Receiving also handles claims with shippers for lost or damaged material.

ACCOUNTS PAYABLE

Purchasing processes vendor invoices, fills out passage stamp information and forwards original invoice copy to Accounts Payable. Accounts Payable's role in the accounting control function is as follows:

(a) Accounts Payable add-checks the invoices and verifies all extensions.
(b) The No. 6 copy of the receiving report is matched with the invoice.
(c) Accounts Payable checks the information contained in the passage stamp as to vendor transportation terms and methods of shipping authorized by Purchasing against actual method of transportation.
(d) Accounts payable computes amount of cash discount.
(e) Invoices are sorted and filed by due date.

In many cases, invoices would be paid before the supporting receiving report is received in order to take advantage of cash discounts. These invoices would be retained in an open file until applicable receiving reports are located. The permanent file copy of purchase orders maintained in Accounts Payable serves principally for reference and informational purposes.

The matching of the receiving report with the invoice (b) above is not an item-for-item comparison at this stage. The receiving report only indicates weight of shipment and numbers of cartons and crates. Purchasing makes the final comparison of material received with the vendor invoice.

STOCKROOMS

Since the stockrooms' personnel handle and stock the material, they are in a good position to verify receipt of material as to quantity, quality, specification and type ordered. The function of the stockrooms in the receiving routine is to inspect and check incoming material, place it in bins, and to notify Inventory Records on copy No. 7 of the purchase order form of the quantity and type of material received and placed into stock.

Incoming material is directed from Receiving to the respective stockroom. Copy No. 7 of the receiving report accompanies the material, as well as vendor packing slips and vendor notice of shipment forms to aid the stockrooms in identifying the

material. Stockroom personnel open the cartons and crates, and examine and count the contents. Notation as to number of items received is written either on copy No. 7 of the receiving report, or when a large number of items is involved, on an attachment to copy No. 7. Copy No. 7 of the receiving report is now forwarded to Inventory Records for entry on perpetual inventory cards.

INVENTORY RECORDS

The principal function of Inventory Records is to maintain proper inventory levels to supply manufacturing needs. A perpetual inventory record card is maintained for each significant type or size of material stocked. These cards indicate quantity on hand, quantity available and quantity on order. The stockrooms verify the material received against the material ordered as indicated on the purchase order and packing slips, and the Inventory Records Units post the stockroom report of material placed into stock against material ordered as indicated on the inventory cards. Inventory Records then forwards copy No. 7 of the receiving report to Purchasing for their files.

PARTIAL SHIPMENTS

The information detailed above assumes that all orders are complete on one vendor shipment rather than being received in partial shipments. Partial shipments are handled as follows:

> When the shipment arrives, Receiving pulls out the receiving report copies and verifies material received in the normal manner. In the case of partial shipments, Receiving has available a supplemental receiving report, similar in form to the original receiving report, on which is inserted the same information contained on the original receiving report. Receiving attaches the third copy of the supplemental receiving report to their permanent file copy of the purchase order.
>
> The supplemental receiving report is handled in the same way as the original receiving report by Accounts Payable, Stockrooms and Inventory Records Units. The supplemental receiving reports are not serially numbered, and the means of identification is the purchase order number. This supplemental receiving report can be used also for shipments not covered by purchase orders.

EXCEPTION REPORTS

In many instances, material is received which is not according to specification or the wrong material is shipped. Such discrepancies are usually discovered in the stockroom at the time of inspection. An Exception Report in serially numbered form is prepared covering the discrepancies with copies going to Purchasing, Accounts Payable and to Inventory Records. Purchasing's copy of the Exception Report furnishes them with the information necessary to contact the vendor and seek settlement or to otherwise deal with problems of defective material or shortages. The copy of the Exception Report which goes to Accounts Payable serves as a check on Purchasing to ensure that all such documents issued are followed through to conclusion. The copy of the Exception Report which goes to Inventory

Records notifies them if the material ordered is not available and, if replacement material is needed to meet production requirements, they will request Purchasing to order additional material.

FOR FURTHER READING

CO-ORDINATING PROCUREMENT: A CASE STUDY, by Howard T. Lewis, Harvard Business Review, Sept.-Oct. 1953.
PURCHASING FOR PROFIT, by Herbert J. Richmond, The Controller 1957.

PERSONALS

A. J. NEWMARK, R.I.A., Credit and Office Manager of Philips Electronics Industries Ltd., Winnipeg, has been renominated to the Board of Governors of the Canadian Credit Men's Trust Association Limited, Manitoba Division. Mr. Newmark has also been elected Vice President of the Winnipeg Chapter of the Canadian Credit Institute, Manitoba Division.

H. B. HECTOR, R.I.A., of the Hamilton Chapter has been appointed Treasurer of Canadian Canners Ltd., Hamilton. Mr. Hector was formerly Comptroller of the company.

J. A. MASSON, R.I.A., of the Toronto Chapter has been appointed Comptroller of Decca Radar (Canada) Limited. Mr. Masson was formerly employed with York Gears Ltd.

N. R. BARFOOT, R.I.A., has been appointed Assistant Secretary of Fiberglas Canada Ltd., Guelph. Mr. Barfoot was formerly Budget Supervisor with Fiberglas.

WALTER FEE, R.I.A., of the Vancouver Chapter has been appointed Supervisor, Cost Control and Budgeting, of Evans, Coleman & Evans, Vancouver.

Profit Pointers . . .

HOW TO CUT TELEGRAM COSTS

Would you like to cut your telegram costs by 41% like this company did? Hire a telegram editor/transmitter. This particular organization chose its young lady for her tact, her ability to economize on words, her familiarity with its company and products — and her ability to know when to ask for advice.

All telegrams must be cleared through this telegram editor before being sent. It is her duty to edit telegrams when she deems it necessary, regardless of the position or prestige of the author. She staples the original message to the file copy of the message as transmitted and retains it in the telegraph department.

Clarity is the basic goal in editing. As her main guide in editing, this editor uses word-count rules obtained from the leading telegraph company.

A telegram editor must also check for time differences. When she has a telegram destined for a point two or three time zones away, she converts the message to the least expensive service — day letter or night-letter.

It has been found that station-to-station telephone rates are sometimes less expensive than fifteen-word telegrams. Often the editor converts these messages to station-to-station telephone calls.

In these ways a telegram editor may cut your telegram costs at a savings each month of more than her monthly salary.

PURCHASE ANALYSIS PAYS

One of the ripest areas for cost reduction is in the purchasing function. One large automotive manufacturer finds it pays to maintain a full-time purchase analysis group. Made up of four highly qualified specialists, two with engineering and two with business administration backgrounds, this function undertakes many special projects though the main work is in well known cost reduction fields such as standardization, design modification, and consolidation of purchasing requirements.

The group has many successful projects to its credit. One of these involved the central purchasing of oils and lubricants for all 15 of the company's plants. The result — the number of types of oil bought was halved with a subsequent reduction in units costs. More efficient handling and storage brought additional savings.

Design change has been responsible for other savings. For example, die-castings were substituted for aluminum sand castings in certain truck axle parts, resulting in a substantial saving, 88 per cent of which was due to the new technique and 12 per cent resulting from lower machining costs.

Through overall commodity study by its purchase analysis section, the company found ways to pare costs by consolidating purchase requirements.

The qualifications of the analyst are the chief factors in purchase analysis and his skill, initiative, and imagination set the only limits to the success of the function in reducing costs.

TALK TABOO EFFECTIVE

Spoken communications are a necessary part of conducting any business, but when these take the form of frequent interruptions during the working day, efficiency is bound to be impaired. Interruptions can be especially annoying during that first hour of the day when schedules are being planned and the day's work assigned. One large American company has overcome this common hazard by enforcing a no-communications rule for the first hour of the day. This rule applies equally in or between the office and plant and between the various departments. As a result supervisors are able to get their departments running smoothly and office workers are able to get organized before the day moves into high gear.

COMBINE PURCHASE ORDERS!

Where many purchases are made from several large suppliers, a blanket purchase order may be the answer to the paperwork problem. Instead of making out separate purchase orders for each item or group of items as they are requisitioned, which are later invoiced and paid separately, one overall purchase order is issued to each supplier every month. As items are requisitioned, a copy of the requisition is sent to the supplier who, by arrangement, accepts this as his authority to supply the goods. In this way each requisition becomes a supplemental part of the blanket order. At the end of the month the supplier sends a single invoice which is paid by one cheque.

The use of this method can bring substantial savings in reduced stationery costs alone, not to mention the typing time saved.

RUSH-ORDER FOLLOW-UP

In many companies, where rush orders are merely marked "Rush", they are often overlooked and control is somewhat haphazard. Fool-proof control can be obtained through the use of a three-part form, one part being a strip of bright gummed labels numbered from "1" on up the sheet, the other two being identical plain strips similarly numbered to correspond with the labels. The label and one plain strip are kept by the order department; the other strip is used by the shipping department. Using carbon, the order department marks date and order number of rush order on corresponding sections of the form and tips the label part to the edge of the rush order, which instantly commands attention. After billing, the label is detached from the order and tipped to the shipping order. The shipping department pulls the label from the shipping order and sticks it to the corresponding number on their list when the order is shipped. Each day the order department notifies the shipping department of the number of rush orders processed and the shipping department checks these off their list. Near the end of the day, if all rush orders are not accounted for, the shipping department follows up missing orders with the order department.

Burden Costing by Machine Centre

By R. Bromley,
Supervisor of Cost Accounting, Sealed Power Corporation, Muskegon, Michigan.

One of the accounting problems of the job-machining industry is the proper application of overhead by specific operation. This is particularly true where each job may vary considerably as to type and amount of machining. The following describes one method of solving this problem.

THIS method of burden costing was developed for a plant that machines cylinder sleeves for all types of internal combustion engines. The degree of tolerances and amount of machining necessary vary widely for different types of engines. There are roughly ten basic machining operations performed, plus heat treating, inspection, and packaging operations. While the plant is an independent manufacturing unit, all accounting functions are performed at the main office of the corporation, located in another city. The overall size of the corporation warrants a large punched card tabulating department with well-trained personnel. An adequate, well-classified chart of accounts had also been established. Efficient methods of collecting costs for repair and maintenance, tools, abrasives, supplies, and depreciation had been established — using tabulating equipment. These factors are mentioned as they simplify the overall problems of cost collection by any method.

The established cost system collected costs on a departmental basis, but since only one department number had been assigned to the sleeve plant, it was only possible to obtain an average actual burden to apply to all machining. A standard cost overhead absorption system usually left over or under-absorbed burden variances — depending on product mix. A detailed budget system, with allowances for various classes of overhead, was in operation. Difficulty in establishing proper allowances was experienced, however, due to the varying product mix. A more detailed breakdown of costs by burden centres was desirable.

The concept of collecting costs by individual machine, rather than by department, was advanced. Since most manufacturing layout and operational problems arise from machines, less opposition arose from manufacturing personnel than might be expected. A comprehensive system of machine numbers met with more acceptance from such operating personnel than an arbitrary list of department numbers. The thought was also advanced that while physical location of any machine might be shifted within the plant, basic machining functions would remain

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Mr. Bromley is Supervisor of Cost Accounting at Sealed Power Corporation in Muskegon and has been employed with the company for the past five years. His fourteen years in the accounting field include several years as cost accountant with the Brunswick-Balke-Collender Company, machine accounting experience with the General Telephone Company and general accounting with a beverage distributor. He is a member of the National Association of Accountants.

constant. To accomplish the project, three basic problems had to be solved. These were as follows:

1. Development of a satisfactory machine numbering system.
2. Development of a cost collection system for expenses directly connected with machines.
3. Development of a method for collecting and allocating general expenses not directly connected with machines.

The machine numbering system proved to be the key to all three problems. The numbers of such a system had to be as simple as possible, yet self-explanatory and distinctive in make-up. Because the machine number would supplant the department number, it also had to be descriptive.

THE MACHINE NUMBERING SYSTEM

As mentioned earlier, the sleeve plant was one of several divisions of the company. It was, therefore, necessary to assign one digit of the machine number to designate the particular division and location. Previously a three-digit departmental number had done this. The second necessary classification involved was machine type; i.e., rough bore, finish turn, honing, etc. Two digits of the machine number were assigned to this classification. Two more digits were assigned to number each specific machine; i.e., rough bore—No. 3, finish turn—No. 12, etc. As a general rule, the oldest machine within the class was assigned number 1, with progressive numbers assigned to newer machines. The overall coding system appeared as follows:

DIVISION NO.	MACHINE TYPE	SPECIFIC MACHINE NO.
9	01—Rough Bore	1, 2, 3, 4 or however many machines there were in each category.
9	05—Rough Turn	
9	10—Finish Bore	
9	15—Finish Turn	
9	20—Centreless Grinding	
9	25—Cylindrical Grinding	
9	30—Honing	
9	35—Drilling and Tapping	
9	40—Chamfering	
9	65—Heat Treating	
9	66—Inspection	
9	67—Packaging	

From the above, it can easily be seen that the oldest rough bore was assigned number 90101, and the newest item of heat treating equipment was assigned number 96505. These numbers were to supplant the old three-digit department number. It was intended that specific items of equipment would always be assigned a machine number for cost collection purposes; however, for operating labour, reporting categories such as heat-treating (where one operator might use all the equipment involved) would require only the first three digits of the numbers. Thus, heat-treat furnace repairs would be charged to 9651, but operating labour would

be reported on 9650. It will be apparent that by controlling on the first three digits of the foregoing numbers, tabulating can report total costs by overall operation. By controlling on all five digits, costs directly by machine can be obtained.

NON-MACHINE EXPENSE CATEGORIES

In addition to the above manufacturing machine designations, the following categories for collecting non-machine expenses were designated:

DIVISION No.	GENERAL DESIGNATION	MACHINE No.
9	80—Manufacturing General Expenses	Assigned only
9	81—Building	where desired.
9	82—Material Handling	
9	83—Plant Services	
9	89—Plant General	
9	90—Personnel Expenses	
9	91—Office	

It can be seen that there are two major divisions of non-machining connected with the above expenses. One division (prefixed by 98—) is concerned with occupancy type expenses; while the other division (prefixed by 99—) is intended for expenses dependent upon payroll. By the addition of the fourth and fifth digits, specific departmental designations could be obtained. As an example, 98101 could be grounds, 98102 could be building proper, etc. Here, again, by controlling on the first two digits, tabulating can easily summarize the two categories of expense.

THE SYSTEM IN OPERATION

With the machine numbering system established, working out the details of collecting machine-connected expenses was fairly easy. Since most employees tend to work at the same machine or group of machines from day to day, time serves to familiarize the employee with the proper machine number to use with the operation number for labour reporting. In connection with labour reporting, separate operation numbers for work on heat-treated sleeves were provided. Since the same machine number is used for requisitioning tooling, abrasives, and supplies, no particular trouble is incurred. Those people responsible for ordering of supplies of a general nature are usually of a calibre able to intelligently use the non-machine designations. Maintenance people prefer working with a machine number. A separate classification account number for production machinery depreciation was introduced, bringing the last element of machine variable expense into the fold.

The remaining overhead items are of a nature that must be allocated back to operations. As can be seen from the numbers assigned for general expenses, two broad categories of expense are provided. One category is for those expenses generally allocated on an area basis. Building depreciation and maintenance, housekeeping services, heat, light, etc., are expenses of this nature. The other broad category is for those expenses attributable to hours of work. Payroll taxes, vacation reserves, cost-of-living factors, etc., fall into this realm.

ADVANTAGES OF THE SYSTEM

The separating of the above-mentioned costs and collection by category, has many important benefits. It is possible to assign a flat burden rate per hour to all

machine labour for "occupancy" charges. This would be true wherever machine sizes tend to be equal. In other words, the larger the proportionate share of direct labour performed by a particular machine type, the more relative area the machine type could be expected to occupy.

Another approach would be to set a standard, efficient area allowance for each machine depending on its relative size, work space needed, etc. By adding the standard requirements of all machines together, a total base for allocating such expense back to operations could be obtained. One important advantage of this method is that moving of machines from one intra-plant location to another has no effect on occupancy costs. Current operating uses of space may be different from the theoretical standard space, but if care is used in setting the standard space allowance, operating needs will dictate eventual return to the standard. The unfairness of allocating unused space to the nearest machine is also avoided.

An added advantage of using standard assigned space per machine can be found for quotation purposes. Occasionally, actual occupancy costs are distorted by unusual building depreciation charges due to use of a fully-depreciated building or a new building with accelerated depreciation charges. In such cases, a normal charge for such costs can easily be substituted for unusual actual charges.

The remaining category of costs is those costs usually dependent upon payroll hours. Arriving at a cost per hour of "fringe benefits" can be very illuminating. Once such a cost is found, it can be easily factored with actual machine costs.

With the breakdown of overhead into the areas of machine variable and non-variable overhead, and direct labour reported by machine, it is apparent that many benefits are to be derived. More accurate standard costs can be established, resulting in better inventory evaluation and more accurate product profit and loss statements. Labour and burden variances are more easily and accurately analyzed.

Quoting for new business can be done on a much more realistic basis. It may be found that the type of business requiring little machining can be profitably taken on at reduced prices. Also, as mentioned earlier, substitution of desired factors of cost can be easily made for unrealistic actual cost due to accelerated depreciation schedules, differences in volume levels, etc.

After historic compilation by machine number has been accomplished, the engineering division should have a field day with such data. The combination of repair charges with current depreciation will give an accurate guide for comparison with new machinery costs. Total cost per hour of labour and overhead for present methods are available for cost comparison with new methods. Some of the old fixed ideas of "which way is cheaper" will undoubtedly fall by the wayside when accurate actual figures are available for comparison of alternative methods. And the actual amount of use for certain machines may turn up some unnecessary equipment, or at least the actual expense involved for maintaining equipment kept for occasional use will be evident.

Perhaps one of the most important benefits to be derived is a proper base for budget allowances. With the current heights to which tooling and abrasive costs have risen, accurate budgeting of such expenses has become a necessity. All budget men will immediately recognize the accuracy with which allowances can be set with such a base. With all classifications of expense kept by machine number and

direct labour hours likewise collected, accurate comparisons of actual expense with budgeted expense can be made.

When proper care is used in setting up the machine numbering system, little extra work is necessitated except in the tabulating department. The principal amount of extra work involved here, however, is mainly of the inexpensive sorting variety. With the competition for today's markets, and ever-rising spiral of costs, such a system should prove beneficial to any plant with a similar type of varied machining work.

FOR FURTHER READING

SEVEN-SEGMENT APPLICATION OF PLANT BURDEN, by H. C. Arnold, N.A.C.A. Bulletin, July 1954, Sect. I.

DISTRIBUTION OF NATIONAL, DIVISIONAL OVERHEADS, by C. B. Allan, N.A.C.A. Bulletin, June 1957, Sect. I.

THE CASE FOR MANAGEMENT EDUCATION

The vast and complex undertakings of trade and industry today and their basic importance in our national life require something more than job-training for those who are engaged in the work of management and who are responsible for maintaining our national production and our economy. Today such key persons need perspective and versatility much beyond that required in our grandparents' time. The shopkeeper, the innkeeper, the manufacturer, the banker of even a half-century ago had nothing like the demands made upon his intelligence that those in similar occupations have today. The records and regulations pertaining to taxation alone would have baffled most bookkeepers at the turn of the century. Great changes are occurring and will occur that require an increasingly greater mental scope to keep abreast of them . . .

. . . The widespread diversification of modern commercial and industrial enterprise brings the executive into an ever widening range of contacts. The more important his position becomes the greater are the demands made upon his versatility and upon the scope of his interests and knowledge. The person whose mental scope does not exceed the technical requirements of his job may make a good foreman but he is unlikely to progress much beyond that level in any up-to-date enterprise.

Dean S. N. F. Chant, in an address to an Institute on Business Education, U.B.C., October 1957.

Books in Review...

TAX-SAVING, Second Edition

By Hugh B. Savage, *Kingsland Publications, P.O. Box 337, Station "L", Montreal 6, Quebec. 1958. pp. 185. $4.00.*

Reviewed by George Moller, D.Jur., C.A., R.I.A.

This useful guide was first issued in 1952 and received a good reception. Publications on taxation unavoidably become dated very fast unless they are in loose leaf commentary form, kept currently up to date. Mr. Savage wishes to complement existing tax publications and quotes acknowledged authorities throughout the text.

The new edition has been substantially expanded and contains a "tax map" inside the cover, which is an original innovation in the presentation of tax information. In the reviewer's opinion, the main value of the presentation lies in the short summaries which conclude each of the 24 chapters. There, Mr. Savage stresses the points which the tax conscious entrepreneur or manager should be constantly aware of. The treatment of important topics like "Does incorporation save taxes?" or "Insurance and Estate Planning", "Tax Saving Through Gifts" will certainly be found helpful. The volume does not attempt to give detailed instructions for handling tax problems, e.g., the calculation of the allowance for corporation tax paid in Quebec by Ontario, but leaves these specialties rightly to the tax expert whom the tax conscious reader will always be well advised to consult when a problem actually arises. The book will certainly help the reader to spot a tax problem in time and to ask questions where alternative approaches with varying effect on taxes are possible.

It would be helpful if the volume, in its next edition, could be further enlarged by an index, although the information in the text is often cross-referenced.

The effort of condensing information as much as possible leads sometimes to rather ambiguous wording, but this does not substantially detract from the presentation. On Page 159, e.g., Mr. Savage states "A person can make gifts totalling $4,000 without attracting gift tax, provided no one person has been given more than $1,000." In the reviewer's opinion, this statement would be clearer if it were to read: "In addition to the aforementioned gifts of not in excess of $1,000 to any individual which are not taxable, a person can make gifts totalling $4,000 without attracting gift tax . . ." Regardless of such possible improvements, it can be stated that the manager and/or industrial accountant acquiring the second edition of this attractively printed volume will get more than his money's worth if he uses the information adroitly.

Great minds have purposes, others have wishes.

—*Washington Irving*

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